

# 7) Who pays your monthly mobile bill?

- I pay from personal funds.....1  
My company pays for it .....2  
Both.....3

# 7a) The next few questions will be about your mobile service with [INSERT CARRIER]. Keep in mind we are not talking about cordless phones you may have in your home or business.

# 8) [IF PERSONAL REASONS > 50%, IN Q.6 ASK Q.8/9. OTHERWISE, SKIP TO Q.10]

Think back to when you first signed up for mobile service with [INSERT CARRIER]. Which one of the following five statements **BEST** describes why you chose mobile service with [INSERT CARRIER]? (SELECT ONLY ONE) [ROTATE ANSWERS]

[S]

- I wanted to replace my residential wireline phone with mobile service  
for all voice communications .....1  
I wanted to add another line at home and decided to add  
mobile service instead of another wireline .....2  
I was getting phone service for the first time for my residence  
and decided to use mobile service instead of wireline service .....3  
I wanted a mobile option in addition to my residential wireline  
phone, and decided to add mobile service .....4  
I wanted to replace my current cellular service with this mobile service .....5  
None of the above .....6

9) Please mark any of these statements that describe how you use your [INSERT CARRIER] service for reasons other than business. (SELECT ALL THAT APPLY)

[M]

- I use the mobile service as the primary telephone in my home.....1  
I use the mobile service to make calls when I am at home, **in addition to** using  
a regular wireline telephone .....2  
I use the mobile service to receive calls at home, instead of having callers  
dial my wireline telephone .....3  
I use the mobile service to make calls when I am away from home, instead of  
using a payphone or calling card.....4  
I use the mobile service to make calls when I am away from home, instead of  
using the wireline phone of a friend, business associate, or another  
individual or business.....5  
I use the mobile service to receive calls when I am away from home .....6  
None of the above .....7

- # 10) [IF BUSINESS REASONS > 50%, OR IF PERSONAL = 50% AND BUSINESS=50% IN Q.6, ASK Q.10/11. OTHERWISE, SKIP TO Q.12]

Think back to when you first signed up for mobile service with [INERT CARRIER]. Which one of the following five statements BEST describes why you chose mobile service with [INSERT CARRIER]? (SELECT ONLY ONE) [ROTATE ANSWERS]

[S]

- I wanted to replace my business wireline phone with mobile service for all voice communications ..... 1
- I wanted to add another line at work and decided to add mobile service instead of another wireline ..... 2
- I was getting phone service for the first time for my work and decided to use mobile service instead of wireline service ..... 3
- I wanted a mobile option in addition to my business wireline phone, and decided to add mobile service ..... 4
- I wanted to replace my current cellular service with this mobile service ..... 5
- None of the above ..... 6

- # 11) Please mark any of these statements that describe how you use your [INSERT CARRIER] service for business reasons. (SELECT ALL THAT APPLY)

[M]

- I use the mobile service as my primary business telephone ..... 1
- I use the mobile service as a second telephone at work, in addition to a wireline phone ..... 2
- I use the mobile service to receive calls when I am away from my workplace ..... 3
- I use the mobile service to make calls when I am away from my workplace instead of using a payphone or calling card ..... 4
- I use the mobile service to make calls when I am away from my workplace, instead of using the wireline phone of a friend, business associate, or another individual or business ..... 5
- None of the above ..... 6

- # 12) How many separate wireline telephone lines do you currently have at your home? (ENTER A WHOLE NUMBER ONLY, NOT A RANGE. IF YOU ARE UNCERTAIN, ENTER YOUR BEST GUESS)

[\_\_\_\_\_]

- # 12a) At your workplace, how many separate wireline telephone lines do you personally have and use? (ENTER A WHOLE NUMBER ONLY, NOT A RANGE. IF YOU ARE UNCERTAIN, ENTER YOUR BEST GUESS)

## USAGE/DEMOGRAPHICS

13) These last few questions are for classification purposes only. You may select "Prefer not to answer" if any appear too sensitive.

14) What is your occupation?

Professional .....	1
Engineer .....	2
Technical .....	3
Managerial/Officials .....	4
Outside/Professional .....	5
Salesman/Inside salesman .....	6
Semi-professional .....	7
Clerical .....	8
Craftsman/Foreman .....	9
Semi-skilled .....	10
Laborer .....	11
Service Worker .....	12
Farm .....	13
Military .....	14
Retired .....	15
Unemployed .....	16
Student .....	17
Housewife .....	18
Other .....	19
Prefer not to answer .....	20

15) [ASK Q.15a IF Q.14 = CODE 19 (OTHER). OTHERWISE, SKIP TO Q.17]

What is your occupation? (ENTER OCCUPATION)

[\_\_\_\_\_]

17) [DISPLAY SMILEY.GIF]

O.K., that's it! THANK YOU for your help today.

*YOU MUST CLICK "NEXT" to receive the credit you've chosen*



PCS Newspaper Ad Study  
Matter: 9702921  
Draft #5

RESPONDENT'S NAME: \_\_\_\_\_ MARKET NAME: \_\_\_\_\_  
ADDRESS: \_\_\_\_\_ SITE/MALL: \_\_\_\_\_  
APPOINTMENT DATE: \_\_\_\_\_ TIME: \_\_\_\_\_ RESPONDENT NO: \_\_\_\_\_

TELEPHONE NUMBER									Interviewer			
Area Code			Prefix			Suffix			Number			

FOR FIELD USE:	
Monitored/Validated by:	_____
Edited by:	_____
Completed:	( )
Terminated:	( )

DATE: \_\_\_\_/\_\_\_\_/\_\_\_\_ TIME ENDED: \_\_\_\_:\_\_\_\_ am pm TIME STARTED: \_\_\_\_:\_\_\_\_ am pm NO. OF MINUTES: \_\_\_\_\_

MARKET.....	QUOTA
1. Louisiana call-ins.....amap	

BD/bd 08/07/97 1:21 pm

# 1) Hello, I'm \*01 with M/A/R/C Opinion Research. Thank you for responding to our ad. We are conducting an important study among mobile telephone users. First, I need to ask you just a few questions to see if you qualify for our survey.

Do you or anyone in your household currently have mobile service?

Yes [IF ANOTHER HH MEMBER HAS THE SERVICE, ASK TO  
SPEAK TO THAT PERSON AND REPEAT INTRO] .....1  
Yes, but not available [SCHEDULE CALLBACK].....2  
No such person[TALLY & TERMINATE: NER-USAGE].....3  
[ 1 2 3 4 5 6 7 8 9 ]

# 1a) And, where did you see our ad?

Times-Picayune .....1  
Gambit.....2  
Other .....3  
Don't know / Don't remember .....4

# 2) Just to check, do you or does any member of your family work in the mobile telephone industry?  
This would include service providers, equipment manufacturers, or an agent or dealer of mobile  
telephones?

Yes [TALLY & TERMINATE: FAILED SECURITY SCREENER] .....1

[ 1 2 3 4 5 6 7 8 9 ]

No .....2

# 2a) Do you, anyone in your household, or anyone in your family work for Sprint PCS or PrimeCo?

Yes [TALLY & TERMINATE: FAILED SECURITY SCREENER] .....1

[ 1 2 3 4 5 6 7 8 9 ]

No .....2

# 3) My questions today are about Personal Communication Services, or PCS. PCS is a new type of  
mobile phone service using digital technology which is different from traditional cellular phone service.  
Do you currently subscribe to personal communication services with any PCS provider?

Yes .....1

No [TALLY & TERMINATE: NER-USAGE] .....2

[ 1 2 3 4 5 6 7 8 9 ]

# 4) Who is your current PCS provider?

[S]

Aerial .....1

AT&T Wireless Services (PCS only) .....2

BellSouth Mobility DCS .....3

Powertel .....4

PrimeCo [CONTINUE] .....5

Sprint PCS [CONTINUE] .....6

Voicestream .....7

Western Wireless (PCS only) .....8

Other .....9

[BUILDER NOTE:

IF Q.4 = CODES 1, 2, 3, 4, 7, 8, OR 9, TALLY & TERMINATE: NER-USAGE]

# 4a) And, just for verification purposes only, may I have the prefix, that is, the first three digits of  
your seven digit mobile number. I do not need the area code at this time?

[\_\_\_\_\_]

(ENTER THREE-DIGIT NUMBER. DO NOT ENTER AREA CODE  
DO NOT USE COMMAS, COLONS, DASHES, SPACES, OR PARENTHESES

[BUILDER NOTE: VALID EXCHANGES ARE 236, 258, 259, 788, 789, OR 669.

OTHERWISE, TALLY & TERMINATE: NER-DEMO] [ 1 2 3 4 5 6 7 8 9 ]

# [4b) END OF SCREENER]

# 5) For how long have you been a customer with [INSERT CARRIER FROM Q.4]?

- One month or less ..... 1
- Over one month but less than 3 months ..... 2
- Three months but less than 6 months ..... 3
- Six months but less than 9 months ..... 4
- Nine months but less than 1 year ..... 5
- One year but less than 3 years ..... 6
- Three years or more ..... 7

# 6) Approximately what percent of the time do you use your mobile phone for business reasons and for personal reasons. Your responses need to total 100%.

Business Reasons ..... [ ]  
Personal Reasons ..... [ ]

[MUST TOTAL 100%]

# 7) Who pays your monthly mobile bill, you, your company, or both?

- Customer pays ..... 1
- Company pays ..... 2
- Both ..... 3

# 7a) My next few questions will be about your mobile service with [INSERT CARRIER FROM Q.4].  
Keep in mind we are not talking about cordless phones you may have in your home or business.

" 8) [IF PERSONAL REASONS > 50%, IN Q.6 ASK Q.8/9. OTHERWISE, SKIP TO Q.10]

Think back to when you first signed up for mobile service with [INSERT CARRIER FROM Q.4].  
Which one of the following five statements BEST describes why you chose mobile service with  
[INSERT CARRIER FROM Q.4]? (READ LIST) [ROTATE ANSWERS]

[S]

- I wanted to replace my residential wireline phone with mobile service  
for all voice communications ..... 1
- I wanted to add another line at home and decided to add  
mobile service instead of another wireline ..... 2
- I was getting phone service for the first time for my residence  
and decided to use mobile service instead of wireline service ..... 3
- I wanted a mobile option in addition to my residential wireline  
phone, and decided to add mobile service ..... 4
- I wanted to replace my current cellular service with this mobile service ..... 5
- (DO NOT READ) None of the above ..... 6

- # 9) Now, I'm going to read six statements that may or may not describe how you use your [INSERT CARRIER FROM Q.4] service for reasons other than business. As I read each statement, please tell me if that statement describes you or not. (READ LIST. PAUSE AFTER EACH. ENTER CORRECT CODE FOR EACH "YES" RESPONSE).

[M]

- I use the mobile service as the primary telephone in my home.....1
- I use the mobile service to make calls when I am at home, in addition to using a regular wireline telephone .....2
- I use the mobile service to receive calls at home, instead of having callers dial my wireline telephone .....3
- I use the mobile service to make calls when I am away from home, instead of using a payphone or calling card.....4
- I use the mobile service to make calls when I am away from home, instead of using the wireline phone of a friend, business associate, or another individual or business.....5
- I use the mobile service to receive calls when I am away from home.....6
- (DO NOT READ) None of the above .....7

- # 10) [IF BUSINESS REASONS > 50%, OR IF PERSONAL = 50% AND BUSINESS=50% IN Q.6, ASK Q.10/11. OTHERWISE, SKIP TO Q.13]

Think back to when you first signed up for mobile service with [INERT CARRIER]. Which one of the following five statements BEST describes why you chose mobile service with [INSERT CARRIER FROM Q.4]? (READ LIST) [ROTATE ANSWERS]

[S]

- I wanted to replace my business wireline phone with mobile service for all voice communications .....1
- I wanted to add another line at work and decided to add mobile service instead of another wireline .....2
- I was getting phone service for the first time for my work and decided to use mobile service instead of wireline service .....3
- I wanted a mobile option in addition to my business wireline phone, and decided to add mobile service .....4
- I wanted to replace my current cellular service with this mobile service .....5
- (DO NOT READ) None of the above .....6

# 11) Now, I'm going to read five statements that may or may not describe how you use your [INSERT CARRIER FROM Q.4] service for business reasons. As I read each statement, please tell me if that statement describes you or not. (READ LIST. PAUSE AFTER EACH. ENTER CORRECT CODE FOR EACH "YES" RESPONSE).

[M]

- I use the mobile service as my primary business telephone ..... 1
- I use the mobile service as a second telephone at work,  
in addition to a wireline phone ..... 2
- I use the mobile service to receive calls when I am away  
from my workplace ..... 3
- I use the mobile service to make calls when I am away  
from my workplace instead of using a payphone or calling card ..... 4
- I use the mobile service to make calls when I am away  
from my workplace, instead of using the wireline phone of a  
friend, business associate, or another individual or business ..... 5
- (DO NOT READ) None of the above ..... 6

# [12) OMIT]

# USAGE/DEMOGRAPHICS

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# 13) These last few questions are just to divide our interviews into groups.

Into which of the following categories does your age fall? Are you (READ LIST)?

- Under 18 ..... 1
- 18 to 24 ..... 2
- 25 to 34 ..... 3
- 35 to 44 ..... 4
- 45 to 54 ..... 5
- 55 to 64 ..... 6
- or, 65 and over ..... 7
- (DO NOT READ) Refused ..... 8

# [14) OMIT]



# 15) What is your occupation?

Professional .....	1
Engineer .....	2
Technical .....	3
Managerial/Officials .....	4
Outside/Professional .....	5
Salesman/Inside salesman.....	6
Semi-professional.....	7
Clerical .....	8
Craftsman/Foreman .....	9
Semi-skilled .....	10
Laborer.....	11
Service Worker .....	12
Farm.....	13
Military .....	14
Retired.....	15
Unemployed.....	16
Student .....	17
Housewife.....	18
Other (SPECIFY) .....	19
[.....]	
Don't know/no answer .....	20

# 15a) How many separate wireline telephone lines do you currently have at your home? (ENTER EXACT NUMBER. DO NOT ACCEPT A RANGE.)

[.....]

# 15b) [IF Q.15=CODES 15, 16, 17, 18, OR 20, SKIP TO Q.16]

At your workplace, how many separate wireline telephone lines do you personally have and use?  
(ENTER EXACT NUMBER. DO NOT ACCEPT A RANGE.)

[.....]

# 16) As a token of our appreciation for participating in this study, we would like to send you a \$5 check. I just need to collect some additional information from you so that we can process the check. You should receive the check within the next couple of weeks.

First, may I have your first and last name?

[.....]  
(VERIFY SPELLING AND ENTER)

# 16a) What is your street address?

[.....]  
(VERIFY SPELLING AND ENTER)

# 16b) City?

\_\_\_\_\_  
(VERIFY SPELLING AND ENTER)

# 16c) State?

\_\_\_\_\_  
(ENTER 2 STATE ABBREVIATION)

# 16d) Zip Code?

\_\_\_\_\_  
(ENTER 5 DIGIT ZIP CODE

DO NOT USE COMMAS, COLONS, DASHES, SPACES, OR PARENTHESES)

# 16e) What is your mobile phone number?

(IF RESPONDENT IS HESITANT, SAY:) In order to process the \$5 cash gift, we need to have your mobile number for verification.

\_\_\_\_\_  
(ENTER AREA CODE AND SEVEN-DIGIT NUMBER.  
DO NOT USE COMMAS, COLONS, DASHES, SPACES, OR PARENTHESES

# 17) At what telephone number can you be contacted most easily?

\_\_\_\_\_  
(ENTER AREA CODE AND SEVEN-DIGIT NUMBER.  
DO NOT USE COMMAS, COLONS, DASHES, SPACES, OR PARENTHESES)

# 18) (ENTER SEX)

Male .....1  
Female .....2

[Thank you for your cooperation and remember, your opinion counts! Have a nice day/evening.]



Reply Declaration of Professor Jerry A. Hausman

1. I am MacDonald Professor of Economics at the Massachusetts Institute of Technology in Cambridge, Massachusetts, 02139. I submitted a previous declaration in this proceeding dated September 26, 1997.

2. In this reply declaration, I first respond to the economists for the IXCs who defend continuing the supra-competitive prices in residential long distance markets by maintaining the prohibition on BOC entry into long distance markets. The arguments of economists for the IXCs have changed little over the past 10 years, and meanwhile residential consumers have paid ten of billions of dollars in overcharges to the IXCs. Despite Congress' explicit intention to increase competition in telecommunications markets, these economists use their same old arguments in an attempt to permanently keep the BOCs from competing with their clients (e.g. Hall for MCI) or ask the Commission to engage in regulatory extortion (e.g. Shapiro for Sprint) until their client IXCs achieve their goals, many of which the Eighth Circuit has rejected as being inconsistent with the Telecommunications Act of 1996. I find it to be quite lamentable that the Commission is once again being urged to maintain policies which are costing consumers billions of dollars per year, do not make economic sense, and are contrary to the Telecommunication Act.<sup>1</sup>

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1. See Jerry Hausman, "Valuing the Effect of Regulation on New Services in Telecommunications", forthcoming in Brookings Papers: Microeconomics 1997. I estimate that the Commission's actions with respect to

Instead, the Commission should be engaged in an economic analysis to determine if consumers would be made better off if BOCs are permitted to offer long distance, consistent with the public interest standard as I discussed in my first declaration.

3. I also reply to Prof. Marius Schwartz on behalf of the DOJ, who has not changed his position from his first affidavit (May 1997). Prof. Schwartz has no economic model analyzing the costs and benefits of delaying BOC entry. Nor does he quantify the effects. Indeed, Prof. Schwartz makes some elementary mistakes. Thus, Prof. Schwartz does not do the fundamental economic analysis that would allow him to draw a reasoned conclusion about whether further delaying BOC entry to meet the "regulatory perfection" standard that I discussed in my first declaration meets the public interest standard set out in Section 271 of the Telecommunications Act of 1996.

4. Lastly, I reply to lawyers from the DOJ who attempt to rebut my reply to Prof. Schwartz. The regulatory interests of the IXC's have been given precedence by the DOJ lawyers over interests of consumers. I find this approach an incorrect method to advance the public interest.

5. Despite the many disagreements between myself and the affidavits that economists for the IXC's and Prof. Schwartz have submitted, no one has submitted data that overcomes the main point of my first declaration in this proceeding (Hausman Dec., para. 16 ff): SNET is allowed to provide interLATA

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refusing to allow the BOCs to provide voice mail cost consumers more than \$10 billion and that the Commission's delay in approving cellular cost consumers over \$100 billion.

long distance service in Connecticut, and SNET's prices are about 17% lower on average than AT&T's prices across residential customers, taking account of all the discount plans that AT&T offers. SNET has gained about 35%-40% of the market in Connecticut demonstrating that many residential customers prefer its service. This market evidence demonstrates the increase in consumer welfare from BOC entry into long distance because consumers benefit from lower prices. On a national basis the increase in consumer welfare is about \$7 billion per year from BOC entry if long distance prices change as they have in Connecticut. This increase in consumer welfare is in the public interest. Likewise, no one has demonstrated that long distance prices are not lower in Canada where ILECs compete in the long distance market than in the U.S. (Hausman Dec., para. 27) Thus, a large gain in consumer welfare would occur if BOCs are permitted to enter the long distance market. This potential gain should be compared to the marginal gain from the "regulatory perfection" standard put forward by the DOJ. Economic analysis demonstrates that overall consumer welfare would increase significantly by BOC entry into the long distance market. Consumer interests should form the basis of a public interest determination, not the interest of the IXC's.

#### I. Prof. Baumol (AT&T)

6. Prof. Baumol set as his standard that the BOCs should not be allowed to enter the long distance market until "concerns about anticompetitive conduct (concerns underlying the original imposition of the MFJ restrictions) have evaporated." I believe that Prof. Baumol has set the incorrect standard, and that his standard will harm consumers. Prof. Baumol pays no attention to

developments in the U.S. where LECs with bottlenecks (according to Prof. Baumol) have been allowed to enter long distance markets and have brought down consumer prices, e.g. SNET. Nor does he provide an explanation of why long distance competition has worked in most developed countries, e.g. Canada, all of which allow incumbent LECs to provide long distance. Prof. Baumol has ignored this actual empirical experience as well as the market changes brought about by the 1996 Telecommunications Act and has written an essay justifying the line of business restrictions of the old MFJ. Congress has since rejected the approach of the MFJ as has every other country that has considered the question.

7. Prof. Baumol's analysis would lead to a conclusion that vertical integration should not be permitted in the U.S. economy if the upstream firm has market power. Thus, his analysis would forbid Intel from supplying computers (integrated chips and boards which are the essential component of a computer). Yet economists have recognized repeatedly that vertical integration typically leads to lower prices to consumers.<sup>2</sup> That is not to deny that competitors of Intel constantly attempt to cause the antitrust regulatory authorities to forbid Intel from competing in downstream markets. Yet no antitrust decision has ever stated that vertical integration should not be permitted, solely on the basis that in the upstream market the firm has substantial market power.

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2. See the reference in fn. 5 of my first declaration that discusses vertical integration and the "double marginalization" problem. This analysis demonstrates that vertical integration will lead to lower prices to consumers. Prof. Baumol never discusses this well known analysis in his declaration.

8. Only if the firm leverages its market power to cause higher prices in the downstream market are consumers injured.<sup>3</sup> Here, downstream prices will be lower for reasons I discussed in my original declaration, paras. 12-14, and the actual experience of SNET and GTE charging lower prices confirms the economic theory. Prof. Baumol seems not to have examined the real world experience of consumer benefits from LEC provision of long distance service in the last decade and a half. Economic learning did not stop with the signing of the MFJ in 1982.

## II. Dr. Baseman and Dr. Warren-Boulton (MCI)

9. Dr. Baseman and Dr. Warren-Boulton (BWB) also use the MFJ standard of "effective competition in the markets for unbundled network elements and for retail local exchange services" (pp. 7-8) as their standard for permitting BOC entry into long distance. This standard is inconsistent with the Telecommunications Act of 1996. BWB recite the standard litany for why regulation cannot stop anti-competitive actions. However, again they completely fail to look at actual empirical experience. No IXC, even MCI, has even attempted to show that SNET or GTE has engaged in discrimination or cross-subsidy. Yet SNET has brought 17% lower prices to consumers and gained

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3. Prof. Baumol does consider the "one monopoly" claim that all monopoly profits can be gained in the upstream market. Of course, this claim does not make economic sense in the current situation since long distance access prices are regulated. He claims that the BOCs will have an incentive to discriminate in providing access (the MFJ rationale), but after 10 years of equal access regulation experience, the chance that problems will arise is extremely small. Professor Marius Schwartz in his first affidavit for the DOJ (para. 74) concluded that no competitive problems are likely to exist from BOC entry into long distance, and that consumers would benefit from the increased competition, at least in the short run. (paras. 138-139)



35-40% of the long distance market in Connecticut.<sup>4</sup> BWB simply recite reasons why they believe BOCs will discriminate against MCI, with no empirical support.

10. BWB also discuss the "carrot" rationale for linking a BOC's entry into interLATA market with local competition. However, BWB do not do a public interest determination as to whether consumers would be made better off by BOC entry, as I did in my first declaration. Instead, they merely assume away any benefit from BOC entry. Of course, it is the IXCs' economic interest to keep the "carrot" permanently out of reach because SNET's entry and the experience in Canada and other countries have demonstrated that LECs will gain a substantial share of long distance markets when they enter. But what is "good for MCI is not necessarily good for consumers". Without any analysis of the net effect on consumers, the carrot approach is an excuse for maintaining barriers to BOC entry into long distance, thereby harming consumers.

11. In an attempt to dismiss the effectiveness of regulation, BWB claim that the BOCs' entry into the long distance market would require detailed regulation. (p. 15) They seem unaware that the Commission has already decided that the BOCs will be treated as non-dominant interexchange carriers on the basis that detailed additional regulation is not necessary.<sup>5</sup> Thus, BWB's

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4. I discuss later the questions which other IXC economists have raised about the price differences that I observe in Connecticut.

5. Second Report and Order in CC Docket No. 96-149 and Third Report and Order in CC Docket No. 96-61, Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area and Policy and rules Concerning the Interstate, Interexchange Marketplace, FCC 97-142 (Apr. 18, 1997)

discussion of regulation has already been largely rejected by the Commission.

12. BWB next consider long distance access pricing. BWB attempt to re-argue the recent Commission decision on long distance access prices. Indeed, BWB attempt to set a standard that access prices must be reduced before the BOCs are allowed to enter (p. 24). BWB are basically arguing here that a BOC has an "unfair advantage" over an IXC because of the access regulation. However, again they never turn to the issue of whether, given the form of access regulation, BOCs have an incentive to offer lower long distance prices to consumers. They do have this incentive as I discussed in my first declaration, and empirical evidence in Connecticut proves that the theory holds.

13. BWB also fail to note that even if access were set at "economic cost", BOCs would still have an economic incentive (although reduced) to offer lower long distance prices to consumers. Vertical integration creates these incentives which lead to consumer benefit; BWB advance no economic analysis which disputes this fundamental point. Similarly, in considering the consumer benefits from one-stop shopping, BWB again state that the BOCs will have "major advantages in competing for customers who prefer to purchase a bundle of services." (p. 52) BWB are incorrect in this claim because IXCs also have the ability to bundle services as soon as Section 271 relief is granted, and also immediately through resale. BWB are against making consumers better off if MCI faces a disadvantage from its competitors. But competition works when different firms can make use of their competitive advantages to offer preferred products and services to consumers. Consumer should not be harmed

by having to wait for BOC entry into long distance until MCI is convinced that all the BOCs' advantages no longer exist. Furthermore, the BOCs will not have a bundling advantage provided that resale, interconnection, and unbundled network elements are available as required by the checklist.

### III. Prof. Shapiro (Sprint)

14. Prof. Shapiro attempts to establish a framework to evaluate the public interest standard without any mention or analysis of benefits from increased long distance competition from BOC entry. He assumes that consumer benefits from local competition will be high (with no supporting evidence); but he fails to assess how effective regulation has been in keeping local exchange services at (or below) their economic cost. Thus, Prof. Shapiro assumes large benefits arising from local exchange competition, and he ignores benefits to consumers from lower long distance prices.<sup>6</sup> His framework fails to do the appropriate benefit-cost analysis of balancing the effects on consumer welfare from local competition and from long distance competition. This one-sided approach is inconsistent with a valid public interest analysis.

15. Prof. Shapiro does recognize that consumers would benefit from being offered bundled services. (pp. 9-10) However, he argues that "parity in the ability to bundle services" should be attained first. The ability to

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6. Prof. Shapiro argues on a priori grounds that "adding another competitor" to the long distance market will bring little benefit. (p. 8) However, Prof. Shapiro fails to consider the empirical evidence of SNET and GTE charging significantly lower prices. His mistake here is his failure to realize that a BOC is not just another competitor; a BOC is a particularly able competitor that has an economic incentive to charge lower prices because of its vertical integration.

bundle using resold services is granted to IXC's once Section 271 entry is granted to the BOC's. IXC's can bundle today through unbundled network elements or other local facilities. Thus, Prof. Shapiro does not advance a valid reason to delay BOC entry. Again he is arguing that a firm should not be allowed to use its competitive advantages to make consumers better off. Prof. Shapiro's "bundling parity" standard (p. 10) demonstrates how consumers are harmed by regulatory protection of competitors such as Sprint. Prof. Shapiro should have concluded that in the absence of "bundling parity" Sprint would be required to lower its prices (as it has done in Canada) which would make consumers better off.<sup>7</sup> The CRTC (the Canadian regulatory authority) has not found it necessary to protect Sprint in Canada, and consumers have benefitted from lower prices. The public interest standard should be designed to help consumers, not to protect Sprint from competition.

### III. Profs. Hubbard and Lehr (AT&T)

16. The primary conclusion of Profs. Hubbard and Lehr (HL) is that long distance markets are "effectively competitive today." (p. 7) HL further conclude that BellSouth's entry into long distance markets will not increase competition, but instead it would threaten competition in long distance markets. (p. 8) Lastly, they state that BellSouth's ability to succeed in long distance competition is "not the relevant question." (p. 10) I reply to these contentions of HL.

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7. I discuss Sprint's lower prices in Canada in my first declaration, para. 27.

17. HL consider various structural factors of long distance market such as the number of competitors and AT&T's market share. They also look at the decline in real (inflation adjusted) prices, a fact which is uncontested in this proceeding. But, HL do no price (rate) comparisons for actual customers, such as I did for SNET in Connecticut. If they had done so, they would have found that SNET's prices are lower.

18. HL do an incorrect comparison in Figure 3 when they consider the real price of long distance. They include all switched long distance service which includes large businesses, small businesses, and residential consumers. Business have received lower prices, while residential customers have not benefitted nearly as much. Indeed, in Figure 4 real consumer prices fell by only 24% of which about 17.9% is the effect of inflation. Thus, nominal prices fell by only a little over 1% a year during this period. Furthermore, since nominal access prices decreased by 20.8%, or 4.6% per year, over this same period and AT&T has claimed repeatedly that access costs are 40-50% of its overall costs, decreases in access rates explain more than 100% of the decrease in residential long distance prices, using HL's AT&T data. (HL in Figure 7 compute that access is about 36% of AT&T long distance revenue and access is a significantly higher proportion of economic cost, given the large margins in long distance.) Thus, AT&T's residential long distance prices increased once the effect of access prices are netted out, contrary to what HL claim for overall long distance prices.

19. Given that SNET offers lower prices, the conclusion should be that residential long distance prices are not effectively competitive. Otherwise,

how can large LECs who are allowed to offer long distance offer significantly lower prices? HL also do not compare US long distance prices with Canadian long distance prices although I demonstrated that Canadian prices are lower. Indeed, HL never consider the main economic reason that LECs offer lower prices: the two margins factor that I discussed in my first declaration. HL's only response to Connecticut is to speculate that the price discounts may not be "long-term". (p. 63) Thus, they want to prevent customers from benefitting from the \$6-7 billion per year that I computed because the benefit may not be "long-term"!

20. HL do not analyze SNET's prices for a range of residential customer usage patterns and compare them to AT&T's prices, as I did in my first declaration, because the outcome would be unfavorable. HL also do not analyze the effect of SNET's one second increment billing (which they recognize) compared to AT&T's one minute billing increment, which I demonstrated in my first affidavit has a significant effect. (Hausman Dec., para 19) Instead, HL claim that some price plans by the IXCs offer lower prices than SNET for some customers at some times of day. (p. 70) HL never calculate an average price difference offered to SNET customers. Furthermore, they neglect another important economic factor. HL refer to the importance of consumer sovereignty (p. 28), but fail to explain why consumers have given SNET a 35-40% share of long distance in Connecticut if long distance competition is "vigorous" competitive as they claim. (p. 30) Consumer choice demonstrates that when SNET has offered lower long distance prices, consumers have chosen SNET to the point where SNET is the second largest long distance provider in Connecticut.

21. Similarly, after offering long distance for 18 months in its

territories, GTE has also become the second largest long distance provider. Consumers vote with their dollars. A significant proportion of consumers have demonstrated that they prefer to buy long distance service from their LEC when lower prices are offered. Yet, HL find it to be in the "public interest" to refuse to let consumers vote with their dollars in a similar way in other states.

22. HL attempt to respond to my analysis that if regulation has been effective, expected gains from "regulatory perfection" are likely to be limited. Their only calculation which leads to a claimed savings of \$15 billion per year (p. 74) is admittedly "back of the envelope" (fn. 106) and is absurdly wrong because the number of minutes it is based on is too small by a factor of at least 3-4 times. Residential customers make many more minutes of calls than HL incorrectly assume they make. HL never consider the cost of these local calls which must be considered in any calculation of possible benefits. HL "make up a number" to try to claim large benefits, but the number is wrong.

23. HL agree with me that the U.S. is the only country not to allow LECs to provide long distance service. (pp. 66-67) They then say that the U.S. is unique with respect to its requirements of unbundling and resale. They are actually incorrect here since both Australia and Canada have similar regulations, although the details differ. However, HL miss my main point. Long distance prices are lower in Canada than the U.S. HL did not dispute my economic analysis here; they just ignore the fact. HL do not discuss why U.S. consumers benefit from paying higher long distance prices than their Canadian

neighbors.

#### IV. Prof. Hall (MCI)

24. Prof. Hall discusses vertical integration, but he fails to recognize the efficiency effect of vertical integration which has long been known to economists. Using Prof. Hall's approach Intel would not be allowed to vertically integrate, but the antitrust laws have never attempted to stop vertical integration. Indeed, most economists agree that large benefits to consumers have arisen from Intel's vertical integration. Prof. Hall never discusses the international experience where every other country except the U.S. has allowed vertical integration of its LEC. The outcome has been considerably more local competition in countries like the U.K. (cable companies providing about 7% of local residential service) and Australia (Optus the second long distance company provides an HFC network to residential customers). Thus, other countries have permitted vertical integration and have more local competition for residential customers than does the U.S. Prof. Hall has no answer in either economic theory or market experience to this international experience.

25. Prof. Hall attempts to minimize the benefits of one-stop shopping.<sup>8</sup> (p. 23) But market experience including the experience in Connecticut demonstrates that consumers prefer one-stop shopping. Thus, Prof. Hall argues against consumer sovereignty, a principle accepted by almost all economists.

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8. Interestingly, HL for AT&T admit to the consumer benefits from one stop shopping.



Prof. Hall is, in essence, saying that he can ignore market outcomes because he cannot understand the source of the efficiencies. If consumers have demonstrated they prefer one-stop shopping, they must be wrong accordingly to Prof. Hall.

26. Prof. Hall attempts to explain SNET's success in Connecticut with 35-40% of the long distance market by claiming that "SNET has a huge competitive advantage". (p. 28) He admits that SNET's prices are lower in Connecticut: "The national long-distance carriers would have to lower their prices nationally in order to respond to SNET's pricing".<sup>9</sup> Contrary to Prof. Hall, SNET's entry has led to lower prices for consumers. Prof. Hall's assertion is incorrect because he fails to consider SNET's one rate type plan when he considers analogous plans from AT&T and MCI. SNET's prices are lower by about 17% as I demonstrated in my first declaration and thus customers have benefitted from SNET's supposedly "huge competitive advantage". Firms compete based on competitive advantages and customers benefit when the advantages are used to lower prices.

27. Prof. Hall agrees that the margin inherent in long distance access can lead to the result that "the local carrier may reduce the price of long-distance service".<sup>10</sup> (p. 30) But he states that this effect should not be considered as a benefit! Lower prices always benefit consumers (holding

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9. Note that this admission directly contradicts Prof. Hall's later assertion that AT&T offers lower long distance prices nationally than SNET does in Connecticut. (see Hall, p. 66)

10. Note that statement directly contradicts Prof. Hall's subsequent claim that double marginalization will not lead to lower long distance prices. (p. 64)